



**EXAMINATION OF
SELECTED ADMINISTRATIVE POLICIES,
PROCEDURES, AND PERSONNEL MATTERS
OF PRESTONSBURG COMMUNITY COLLEGE**

**For The Period Of
July 1, 1995 Through March 31, 1999
Unless Otherwise Noted**

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

May 27, 1999

Dr. Michael B. McCall, President
Dr. Tony Newberry, Chancellor for Community Colleges
Beverly Haverstock, General Counsel
Martha Johnson, Chairperson
Board of Regents
Kentucky Community & Technical College System
2624 Administration Park Drive
P.O. Box 14092
Lexington, Kentucky 40512-4092

RE: Examination of Selected Administrative Policies, Procedures, and Personnel Matters at
Prestonsburg Community College

Dear Ladies and Gentlemen:

At the request of the Kentucky Community and Technical College System (KCTCS), we have examined selected administrative policies, procedures, and personnel matters of Prestonsburg Community College (PCC) for the period July 1, 1995 through March 31, 1999. Our examination identified more than \$20,000 in fees misappropriated from the college's testing program due to the failure to deposit cash receipts collected from individuals. We also identified noncompliance with University of Kentucky (University) policies concerning staff overtime and instances of inappropriate use of college personnel. This report includes comments and recommendations intended to strengthen controls over these and other areas.

KCTCS, created by the Postsecondary Education Improvement Act of 1997, assumed control of 13 community colleges, including PCC, on January 14, 1998. Prior to that date, PCC was under the administrative control of the University. Unless otherwise noted, the University's personnel and business policies are cited in this report and govern PCC until superseded by new KCTCS policies.

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Our examination of PCC was limited to the following areas:

- Collection of testing fees

We reconciled testing fees collected, as computed from test logs, sign-in sheets, and grading summaries, from individuals taking various achievement and placement tests at PCC to the total testing fees deposited with the business office. We determined that \$20,545 in cash was collected but not deposited. We identified several internal control failures that further contributed to this misappropriation.

- Misuse of PCC employees

We investigated allegations from current and former employees that work of a personal nature was performed for PCC President Deborah Floyd during PCC working hours.

- PCC overtime policy

We identified inconsistencies in applying the University overtime policy to employees within the PCC President's office.

- Imprest cash account

We discovered that the administration of the student emergency loan fund allowed activity in conflict with the prescribed use of the fund.

We were also asked to assess the performance of the Dean of Business Affairs in the above areas. Our comments on this matter, as well as our observations of the ongoing poor working environment at PCC, are presented in this report.

The objectives of our examination were to assess the areas previously identified and to make recommendations to improve the administration and operations at PCC. To achieve the objectives, we analyzed reports, ledgers, and other accounting records. We also interviewed

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PCC administrators, staff, faculty, former employees, and other concerned citizens. Further, we reviewed correspondence between various PCC employees and KCTCS. The scope of our examination does not constitute an audit of the college, and accordingly, we express no opinion on the financial statements of PCC.

We appreciate the cooperation of the KCTCS and the administration and staff of PCC during our examination.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

EBHJr:kct

COMMENTS AND RECOMMENDATIONS

COMMENTS AND RECOMMENDATIONS

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation

PCC administers several achievement and placement tests as part of its admissions process and community service programs. These tests include the national American College Testing examination (ACT), the ACT Residual and Career Planning Program (CPP), the ASSET test, and the General Education Development (GED) test. Brenda Music, Director of Financial Aid within the Office of Student Affairs, administered the testing function at PCC from 1989 through January 1999.

As chief testing administrator, Ms Music was responsible for the collection of the testing fees charged to sit for exams. Ms Music directed the collection of fees for the ACT Residual, the CPP, and the GED tests. The national ACT administrator receives fees directly from those registered for the exam. There is no charge for the ASSET test.

Ms Music was alleged to have mishandled and misappropriated testing fees according to depositions filed for an unrelated civil action in Floyd Circuit Court initiated by Ms Music. The depositions alleged Ms Music placed cash collected for testing fees in her office safe and did not forward the fees to the PCC business office for deposit into an official account. According to the allegations, Ms Music subsequently deposited the money in her personal bank account, used the cash to pay personal bills, lent the cash to students or colleagues, and bought lunches for office staff. The depositions also alleged testing fees were collected in cash only and receipts were not issued or maintained.

We spoke with employees who told us they witnessed Ms Music place cash from testing fees in her office safe and some employees said they witnessed Ms Music remove cash from the safe. One employee recalled making personal bank deposits and paying a telephone bill for Ms Music with cash taken from the safe.

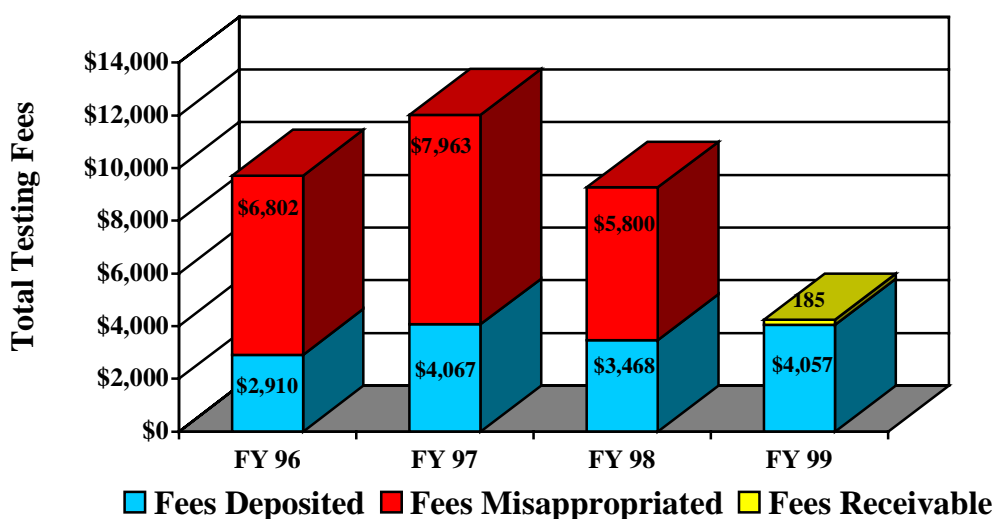
We met with Ms Music, who was accompanied by her attorneys, to discuss her role as testing administrator. Ms Music told us when she assumed the duties of testing administrator in 1989 PCC's president told her she could keep the cash collected from testing. The cash was to compensate her for the extra time and work involved, which included working on Saturdays. Ms Music stated that she used some of the cash to pay test monitors or proctors, and occasionally to buy lunch for the testing staff. According to Ms Music, she did not keep records of the testing fees she collected, or any documentation of expenses. She said individuals paying cash did not receive receipts until a policy change in April 1998. However, testing personnel issued receipts for payments received by check, and subsequently delivered those receipts to the business office.

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation (Continued)

For the period July 1995 through January 1999, we determined the total amount of testing fees collected from available records. We examined testing records on file, including GED test log forms, ACT Residual and CPP identification transmittal forms, sign-in sheets, and invoices from the ACT and GED administrators for grading services. For the period examined, testing fees were computed to be \$35,252. The total testing money deposited in the business office for this period was \$14,502. An additional \$185 receivable was noted for fiscal year 1999. Consequently, \$20,565 in testing fees was not deposited for this 43-month period and is considered misappropriated.

The following chart details by fiscal year the total fees deposited and misappropriated from July 1995 through January 1999.

Comparison of Testing Fees Deposited to Testing Fees Misappropriated



Source of Information: GED Test Log Forms, ACT Residual and CPP Identification Transmittal Forms, Sign-in Sheets, ACT and GED Grading Services Invoices, Business Office Deposits

The diversion of cash receipts for any purpose prior to deposit at an authorized depository violates University business procedure E-2-4-B-1b, which states, “[a]ll cash receipts must be deposited intact. This means no checks may be cashed or disbursements made. . .from receipts.” The failure to issue receipts to those paying cash violates University business procedure E-2-4-D-1, which states, “[a] written acknowledgement should be made for each cash payment received.” The business office appropriately receipted and deposited fees collected by check. We noted examples of checks receipted on the same day cash was

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation (Continued)

collected from testing, but only the checks were deposited. For example, the sign-in sheet for the June 26, 1997, CPP test documented that 36 individuals took the exam that day. The sign-in sheet illustrates that two people paid the \$20 fee by check, three charged their fees with a credit voucher, and the remaining 31 paid in cash. The business office received and deposited \$40, which was accounted for in the cash transmittal letter. There was no accounting for the cash receipts of \$620. No procedure was in place to reconcile the number of individuals taking the exam with the receipts deposited in the business office.

While the failure to require receipts to be issued was the primary factor in not detecting the misappropriation of testing fees, the following other factors and inadequate controls contributed as well.

- The testing administrator lacked adequate supervision. University business procedure E-2-3(C) states, “[a]ny employee who handles cash is absolutely responsible for that cash. A supervisor of any employee who handles cash is responsible for ensuring that proper and reasonable safeguards are followed.” Sandra Kaikumba, Dean of Student Affairs, was Ms Music’s immediate supervisor from August 1997 until February 1999 when Ms Music was placed on leave. Before Ms Kaikumba assumed the dean’s position, Ms Music was Acting Dean of Student Affairs for a period of five years. As Acting Dean from 1992 to 1997, Ms Music was under the direct supervision of President Deborah Floyd. Prior to Ms Music’s appointment as Acting Dean in 1992, her immediate supervisor was John Herald, who was then the Dean of Student Affairs.
- The college had no detailed written policy for testing procedures. Such a policy would enable management to monitor the testing function and allow each employee to understand the specific procedures to be followed when administering a test. It is the responsibility of management to establish sufficient internal control and to maintain compliance with established policies.
- Budgetary interaction was not well coordinated between financial aid, continuing education, and the business office. The Financial Aid Office within the Office of Student Affairs administered testing. However, organizationally the testing function was attached to the Continuing Education/Community Services (CE/CS) Office of the Office of Academic Affairs. Therefore, no one outside the business office had responsibility for monitoring the testing budget. As University Ledger 3 accounts, such as test administration, are designed to be self-supporting programs, receipts should be adequate to pay for program expenditures. When, due to the misappropriation of testing fees, the testing account had an insufficient balance to cover a large invoice, payment had to be made from the Federal Title IIc Perkins Grant. This payment was, however, in compliance with the grant guidelines.

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation (Continued)

- The college promoted its acceptance of cash as the preferred mode of payment. While personnel responsible for testing accepted checks for testing fees, the advertisements for testing encouraged cash payments. The CPP test fee appears to have been set arbitrarily high at \$20. Other Kentucky community colleges administered the CPP test for a \$12 to \$15 fee, which was more than adequate to cover the cost of the test booklets and grading sheets.

We also noted expenditures charged to the testing account that were unrelated to testing. These expenditures, for items such as pool cues and table tennis paddles for the student center recreation room, totaled \$622 in fiscal year 1996. These expenditures violated the University Administration Regulation AR II-1.5(9), which states, “expenditures charged to a particular account must be for the accomplishment of those objectives of the program named in that account.”

Sufficient testing fees were collected in checks and deposited with the business office to keep the testing account solvent until an invoice from GED appeared in March 1998. The discovery of an insufficient balance in the testing account led to Dean Kaikumba’s inquiry into testing receipts. From that inquiry, Dean Kaikumba changed the policy and required receipts be issued to those paying fees with cash as well as checks.

We examined John Herald’s involvement with the testing process and collection of fees. Ms Music stated that she did not know whether Mr. Herald was aware of her procedures regarding cash fees. Mr. Herald said that he was not aware the business office did not receive the cash fees. One of the employees deposed in the Music legal action alleged witnessing Mr. Herald taking money from Ms Music’s safe on more than one occasion. No other employee questioned was able to substantiate the allegation. Both Ms Music and Mr. Herald stated that Mr. Herald did not have access to or knowledge of the combination to Ms Music’s safe.

Mr. Herald approved daily cash transmittal sheets that recorded testing fees processed in the business office. Mr. Herald, therefore, had the opportunity to recognize that virtually no cash from testing was being deposited and that very few receipts were written and remitted to the business office. Mr. Herald told us he believes controls could have been tighter over testing fees. Several reviews, including a University management review for fiscal years 1995-97, examined cash procedures and reported no weaknesses. We note, however, that even a cursory review by the Office of Business Affairs of the testing function would have detected control deficiencies in the cash handling procedures.

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation (Continued)

After the completion of our fieldwork, the Kentucky Department for Adult Education and Literacy (KDAEL) sent a letter to President Floyd expressing concerns about the absence of appropriate management and supervision over the college's GED testing center. The letter cited several examples of poor testing administration but did not express concern about the collection of testing fees. Effective April 23, 1999, the administration of the college's GED testing center was placed under the direct supervision of KDAEL.

Recommendations

We note that PCC substantially improved internal control over the testing function in April 1998 by complying with University policy that every person be issued a cash receipt when paying a testing fee. University business procedures require that cash receipts be "sequentially pre-numbered, accounted for, and maintained for audit purposes." Voided receipts should also be retained in numeric order.

We recommend the college further strengthen internal control over testing by adopting written policies to govern the testing function. These policies should include:

- Daily reconciliation of the cash deposited with the business office and the roster(s) of individuals sitting for tests.
- A review of the daily reconciliation by a person independent of the cash receipt function.
- A cash handling guideline form, to be signed by each person receiving cash and any supervisor of these employees, which would delineate their responsibilities.
- A requirement for the periodic review of the fees charged in order that revenues most closely match necessary testing expenditures.
- Adequate monitoring of any employee collecting or transmitting cash.

University business procedures state "employment in a cash handling position entails certain responsibilities and, for the protection of both the employee and University, requires strict adherence to the policies and procedures of the University of Kentucky. Accordingly, violations of cash handling rules and regulations will be considered a serious failure on the part of any employee and the responsible supervisor."

We further recommend the testing function shift from the Financial Aid Office to CE/CS. According to University Administrative Regulation II-5.D-3, testing and assessment services are representative activities of CE/CS. In addition, such a shift of responsibility would consolidate the actual testing administration with the existing budgetary organization.

1) Internal Controls Should Be Implemented To Safeguard Testing Fees From Future Misappropriation (Continued)

Recommendations (Continued)

We identified \$20,565 in misappropriated cash receipts. This matter will be referred to the Office of the Attorney General for further investigation to determine whether criminal prosecution will be pursued. Our examination spanned the period July 1995 through January 1999; however, the conditions leading to the identified misappropriation existed prior to the period of our review. The Attorney General or KCTCS may wish to examine prior years to determine possible additional misappropriations.

Finally, we recommend PCC comply with University Administration Regulation AR II-1.5(9) that ensures all expenditures are made to meet program objectives.

2) Employees Should Not Be Used For The Personal Benefit Of Management

In January 1999, several PCC employees signed sworn affidavits alleging that they performed work during regular employment hours at the direction of President Floyd for her benefit, including working at her apartment and performing personal errands. These allegations date back to 1991, when President Floyd assumed the position as president of PCC.

Five different employees signed affidavits attesting to their participation in creating an autumn scene at President Floyd's home in October 1998. One employee stated President Floyd told her to instruct the college's maintenance and operations staff to decorate the apartment grounds and to supervise the task. She stated President Floyd gave her \$50 with which to purchase supplies. President Floyd told us she gave the employee \$50 for decorating supplies, but denied instructing anyone to do the work on college time. President Floyd did not reprimand or question any employee regarding the timing of the work.

One employee's affidavit attested to several occasions when President Floyd asked her to do personal errands. Examples cited included picking up shoes from a store in town, buying wedding and Christmas presents, paying a bill from a local card shop, and taking a gift to a local express delivery outlet for shipping. According to the affidavit, she performed all of these tasks during college work hours. Store receipt copies were attached to the affidavit documenting the purchase of these goods and services.

PCC employees who were interviewed, including two who signed affidavits, acknowledged having been paid by President Floyd to perform personal work for her during off-hours. These instances were separate from the occasions cited in the affidavits. President Floyd stated that she had paid employees in the past for work performed after hours, but denied using employees during work hours for personal projects or errands.

2) **Employees Should Not Be Used For The Personal Benefit Of Management (Continued)**

The use of a public employee for a personal task during work hours is an abuse of authority. Likewise, the failure to devise detailed written guidelines for the employment of college staff after work hours may create a misunderstanding or appear to be an inappropriate use of authority.

Recommendations

We recommend the President or other management not use college personnel for personal jobs or errands during work hours. KCTCS should develop guidelines detailing circumstances under which college employees may be hired to perform personal jobs after hours.

3) **PCC Facsimile Equipment Should Be Programmed To Identify The Origin Of The Transmissions As Required By Federal Regulations**

An employee's affidavit alleged that the President asked that the facsimile machine in the President's office be programmed to prevent the sender's identification and telephone numbers from appearing on transmitted facsimiles. Another former employee we questioned said that he was also asked by someone in the President's office to remove that information. Both employees stated they did not remove the identifying information because they knew that doing so was against Federal Communications Commission (FCC) regulations. These regulations require the identification of the sender and the sender's telephone number for all facsimile transmissions. 47 CFR Sec. 68.318. Moreover, PCC has a duty to taxpayers to be accountable for the use of all public resources. We obtained copies of documents, faxed to the University on September 4, 1997, which did not contain the FCC required identification. According to an employee, this fax was sent from the President's machine. The President denied removing the identifying information from any college fax machine. We also obtained, with the President's cooperation, a fax from the college's development office that did not identify the telephone number of the sending machine. After we discussed this matter with President Floyd, she sent a directive to her executive staff on March 31, 1999, asking them to check the campus fax machines for compliance with the FCC regulation. However, we received a fax from the Office of Student Affairs on May 24, 1999, which did not identify the sender or sender's phone number in accordance with the FCC regulation. When we mentioned this omission, the Office of Student Affairs immediately corrected the problem.

Recommendation

We recommend the President and all college staff comply with the FCC regulations regarding fax machines and be accountable for the proper use of public resources. The FCC regulations prohibit any person within the United States to send any message via a telephone facsimile machine unless such message clearly contains, in a margin at the top

3) PCC Facsimile Equipment Should Be Programmed To Identify The Origin Of The Transmissions As Required By Federal Regulations (Continued)

Recommendation (Continued)

or bottom of each transmitted page or on the first page of the transmission, the date and time it is sent and an identification of the business, other entity, or individual sending the message, and the telephone number of the sending machine or of such business, other entity, or individual.

4) PCC Should Strengthen And Adhere To Existing Overtime Policy

We spoke with many current and former employees of PCC about the college's policy for overtime. The issue was first addressed in the Collegewide Committee report of September 10, 1996. This committee was formed as a result of an independent consultant's recommendation. The focus of this committee was to find "solutions that will serve the overall best interests of the College and the students and community it serves" The committee recommended that classified staff be paid for overtime hours worked, if the time cannot be taken off within the same payroll period. The recommendation further stated, "[i]f sufficient overtime funds are not available, classified staff should not be expected to work overtime hours."

President Floyd, in her memorandum of response sent to all staff on October 8, 1996, stated, "I agree with the recommendation regarding compensation for classified staff related to overtime work." She asked for an internal audit "to ensure that any specific problems are identified and corrected." She assigned responsibility for implementation of the committee's recommendation to supervisors and the Dean of Business Affairs. The only objections from those interviewed concerned the failure to properly compensate employees for overtime within the President's office.

On October 28, 1996, President Floyd instructed her office staff that it was each employee's responsibility to comply with her October 8 memorandum and "to take the time they have coming, in compliance with laws and regulations." President Floyd stated "there is no overtime money" in an e-mail dated October 28, 1996.

Margarita Hampton of the President's office sent a letter to President Floyd on April 16, 1996, in which she notified President Floyd of 20 days of overtime she earned in 1995. On November 4, 1996, Ms Hampton sent a memorandum to President Floyd, which detailed the overtime of three employees of the President's staff accumulated since April 1996. This overtime totaled 34 days. On November 5, 1996, President Floyd e-mailed Ms Hampton, expressing "shock" at the overtime memorandum, stating "I did not approve this overtime and was not aware of it." President Floyd's e-mail also stated, "I want to be perfectly clear that no overtime will be paid."

4) PCC Should Strengthen And Adhere To Existing Overtime Policy (Continued)

The policy in the President's office was to compensate office staff for overtime worked by allowing employees compensatory leave. University personnel policy 30.3.1.11 allows compensation for overtime in excess of 40 hours worked in a week for nonexempt employees in one of two ways: leave can be elected *in the same pay period* at the rate of 1.5 hours of leave per overtime hour worked; or *payment can be made* at 1.5 times the rate of pay. Hours between 37.5 and 40 are to be paid at the normal hourly rate. *The University personnel policy makes no provision for the accumulation and use of compensatory time past the pay period in which it is earned.*

Given President Floyd's wish to identify and correct specific problems concerning overtime, and her directive to do so "in compliance with laws and regulations," the employees should have been paid for the 34 days of accumulated overtime. We received no documentation that President Floyd further addressed, or that any office employee continued to pursue, the matter until June 1998. At that time Ms Hampton, through her attorney, notified the Chancellor of the Community College System of her claim for compensation for unpaid hours worked from 1995-1997. After reviewing Ms Hampton's claim, KCTCS recently paid Ms Hampton for 394 hours of overtime dating from October 1994 to August 1997.

The other employees listed on the November 4, 1996, memorandum to President Floyd are owed additional money for their accumulated overtime but have not filed a formal claim.

Two employees stated they were instructed not to submit time sheets to President Floyd for more than 37.5 hours worked in a week. Even after the adoption of a time-clock policy in July 1997, some employee time cards reflect several additional hours worked, but the corresponding time sheets signed by President Floyd show only 37.5 hours. University personnel policy 70.1.2.2 states, "[t]he department head is responsible for maintaining work schedules, recording hours worked, authorizing leaves, and reporting hours approved for pay." Also, policy 70.2.1.1 states that each administrator "is responsible for authorization of a nonexempt staff employee's work in excess of forty (40) hours in any single work week" The Fair Labor Standards Act and KRS 337.285 require nonexempt employees be compensated at a rate of not less than one and one-half times the hourly rate for hours worked in excess of forty per week.

The college did not have a procedure for documenting the request for or approval of overtime worked. President Floyd, in her October 8, 1996 memorandum, stated "[w]e should comply with the Fair Labor Standards Act." Documentation exists that employees continued to work in excess of 37.5 hours without compensation even after President Floyd's October 8, 1996 memorandum.

4) PCC Should Strengthen And Adhere To Existing Overtime Policy (Continued)

Recommendations

The implementation of a time clock policy for employees in the President's office greatly improved the staff's timekeeping and substantially reduced employee claims of uncompensated overtime. We recommend the office expand the use of the time clock to include clocking out and in at lunchtime. This will enhance the documentation of actual hours worked.

We also recommend PCC require prior written approval for all hours worked by nonexempt employees in excess of 37.5 per week. Employees who do not obtain such advance approval are not authorized to work and should be compensated for only those hours which are authorized. Supervisors should enforce this practice.

We further recommend PCC consistently follow existing policy for employee overtime compensation. This policy requires that any overtime not compensated by time off in the same time period must be paid to the employees.

5) Detailed Criteria Should Be Developed To Improve The Administration Of Emergency Student Loans

PCC maintains, under the custodianship of Ms Music, an imprest cash fund known as the emergency loan fund, which is used ". . . to provide advance payment to students who have an emergency situation and have not received their financial aid." The imprest bank account has a balance of \$6,000 from which loans are made, and is supported by a Ledger 5 account for emergency aid, which periodically replenishes the imprest fund for any bad debts incurred. All Ledger 5 accounts were established through private donations to the college and may require use for restricted purposes.

According to Dean Herald, the Ledger 5 account should always have a balance of at least \$6,000 in order to support the imprest fund in the event that every outstanding loan became uncollectable.

In November 1996, PCC's Ledger 5 emergency aid account transferred \$4,045 to the PCC bookstore. The transfer was to pay the bookstore for charges made by 28 students in the Single Parent/Homemaker Program for the fall semester. According to the primary donor who established the emergency aid account, the \$4,045 payment was intended to be a one-time grant, not a loan, to needy students.

5) Detailed Criteria Should Be Developed To Improve The Administration Of Emergency Student Loans (Continued)

The donor, concerned the fund did not help enough students, gave authorization for the use of the emergency aid account for bookstore purchases. The donor said more money could be raised, if necessary, to replenish the account. As a restricted Ledger 5 account, the emergency aid fund is to be used for the purpose intended by the donor. The documented purpose of the fund, however, was to provide loans, not grants. No written amendment to the donor agreement was prepared.

In March 1999, the Ledger 5 emergency aid account had a balance of \$5,792. This falls below the stated objective of maintaining at least \$6,000 to cover the entire amount of the imprest account.

According to Ms Music, no formal procedures or written applications were used to determine student needs for purposes of obtaining aid from the emergency loan fund. An unofficial limit of \$200 was placed on these loans, although extraordinary circumstances could allow loans of \$300 to \$400. We noted that one student, who works in the Student Affairs Office, received loans on 22 separate occasions between August 1997 and March 1999. These loans totaled \$1,815, of which \$565 was still outstanding in March 1999. This violates the stated intent of the fund, to help students awaiting financial aid, and exceeds the unofficial limit placed on individual loans.

Recommendations

We recommend detailed written criteria be established to improve the administration of the emergency loan fund. To ensure compliance with the documented intent of the emergency loan fund the criteria should include a written application, a maximum loan amount, an estimated date of repayment, and the total number of loans a student can receive.

We also recommend money donated to support student loans not be diverted for any other purpose without a written amendment to the original donation agreement.

We further recommend the emergency loan fund be carefully monitored to ensure that the Ledger 5 emergency aid account balance is sufficient to cover all outstanding loans.

6) KCTCS Should Address Conflict At PCC To Restore A Productive Work Environment

In the spring of 1996, responding to a controversy that surfaced between President Floyd and the faculty, the University hired a team of consultants to assess the situation and offer recommendations to resolve the conflict. The consultants issued their report on May 28, 1996. The report stated, “. . . we are concerned, first and foremost, with the increasing lack of civility and erosion of professionalism observed by us and reported to us during our visit.”

6) KCTCS Should Address Conflict At PCC To Restore A Productive Work Environment (Continued)

The consultants cited reports of “harassing mail, phone calls and other rude or abusive behavior. . . . Others have expressed fear of retribution should they disagree with anyone or about anything.” The report stated “this behavior adversely affects the quality of their work and learning environment and threatens academic freedom.” The consultants offered this comment: “[c]learly, this kind of behavior must stop if the college is to right itself and get back on course. . . . Without an immediate change in climate, it is unlikely that a reasoned discussion can take place about any issue of substance on which opinions are divided.”

The consultants’ 1996 description remains a fair portrayal of PCC’s climate. The staff is polarized. Fear of retribution persists. Complaints, rumors, the threat of legal actions, and reports of misconduct or misappropriation as alleged by anonymous third parties continue. Management and staff appear to have little desire or ability to successfully deal with issues internally, as issue after issue is reported to KCTCS. We interviewed numerous PCC administrators, faculty, and staff employees. Allegations from many years ago, as well as newer ones, were discussed. A common thread seems to be finger-pointing and a general unwillingness to ignore even trivial problems or to accept any personal responsibility for the campus climate, which President Floyd described as “sensitive.”

While engaged to review the issues addressed in this report, we did not deny anyone an opportunity to discuss his or her concerns with us. Many issues and allegations were raised. While most of these matters had previously been communicated by the concerned parties to KCTCS, we also informed KCTCS of all issues and allegations brought to our attention during this examination.

We observed a particularly hostile relationship between the President and the Dean of Business Affairs. Interviews with both President Floyd and Dean Herald indicated a mutual suspicion and distrust between the two, and numerous e-mails from them documented their concerns to KCTCS.

As Mr. Herald’s immediate supervisor, President Floyd is responsible for conducting an annual evaluation of Mr. Herald’s job performance. For each of the years 1994, 1995, and 1996, President Floyd evaluated Dean Herald as “outstanding,” the highest evaluation attainable. For 1997, no written evaluation of Mr. Herald, or any other dean, was performed. President Floyd verbally gave Mr. Herald a rating of “2,” or satisfactory, for 1997. University personnel policy 61.3.1 states, “[e]ach regular staff employee will have a written performance evaluation completed annually.” The policy adds that each employee “shall be given the opportunity to review the performance appraisal and indicate in writing agreement

6) KCTCS Should Address Conflict At PCC To Restore A Productive Work Environment (Continued)

or disagreement with the appraiser's evaluation. The employee's comments will become a part of the performance appraisal." Therefore, it is evident that Mr. Herald did not receive an evaluation for 1997 in compliance with the University personnel policy. Mr. Herald was reassigned on February 5, 1999, at which time he had not received a performance appraisal for 1998.

The internal control activities of any entity are critical in achieving the objectives of reliable financial reporting, effective and efficient operations, and compliance with law and regulations. The foundation for all components of internal control is the entity's control environment, which sets the tone of an organization, influencing the control consciousness of its people.

Statement on Auditing Standards No. 78, discussing the auditor's consideration of internal control, lists the following factors encompassed in an entity's control environment:

- Integrity and ethical values, including the communication of behavioral standards;
- Commitment to competence;
- Board of directors participation, emphasizing independence from management;
- Management's philosophy and operating style, including management's attitudes toward personnel;
- Organizational structure;
- Assignment of authority and responsibility; and,
- Human resource policies and practices, including those related to hiring, training, evaluating, and compensating.

The continuing discord at PCC is symptomatic of an ineffective control environment. Management is responsible to implement and to ensure the consistent application of internal control, which is fundamental for an effective work environment.

Recommendations

KCTCS and the administration of PCC should act decisively to resolve the controversies, which have divided the campus for many years. Written directives, policies, and guidelines should be formulated and consistently applied to improve PCC's control environment.

Management responsibilities should be clearly defined to include measurable benchmarks of performance. Independent timely written evaluations should reflect employee's ability to fulfill assigned responsibilities and to meet established goals and objectives. KCTCS should monitor PCC's progress to strengthen their internal control process.

KENTUCKY COMMUNITY & TECHNICAL COLLEGE SYSTEM
REPORT RESPONSE



OFFICE OF THE PRESIDENT

Dr. Michael B. McCall

May 26, 1999

Edward B. Hatchett, Jr.
Auditor of Public Accounts
144 Capitol Avenue
Frankfort, KY 40501-3448

Re: KCTCS Response to Examination of Selected Administrative Policies,
Procedures, and Personnel Matters at Prestonsburg Community College

Dear Mr. Hatchett:

This is the KCTCS response to the draft report entitled Examination of Selected Administrative Policies, Procedures, and Personnel Matters of Prestonsburg Community College that your office prepared in response to our request. KCTCS appreciates the professional manner in which auditors from your office conducted this examination. Brian Lykins, Director, Division of Examination and Information Technology, Bob Pinkston, and Lisa Coop, Staff Auditors, were courteous, thorough, sensitive, and competent in handling the matters being examined in this audit.

We have reviewed the report. We have no corrections to bring to your attention. We are taking the report very seriously and intend to implement the Recommendations as soon as practicable.

Thank you for excellent service.

Sincerely,

Michael B. McCall, Ed.D.
President

